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**AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE
EFFICIENCY, INTERNAL CONTROLS AND/OR FINANCIAL REPORTING**

We have audited the basic financial statements of the County of Merced (the County) for the year ended June 30, 2008 and have issued our report thereon dated January 19, 2009. In planning and performing our audit of the financial statements of the County, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

As a result of our audit, we noted certain agreed-upon findings. These findings and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other efficiencies and are summarized as follows:

Current Year Agreed Upon Findings & Recommendations

Agreed Upon Condition 2008-1 – Time Studies

Condition

During our testing of time cards and corresponding time studies, we noted that seven time studies out of our forty samples did not accurately reflect the underlying time card. The total number of hours miss-reported as either allocable or non-allocable was 25. The time study is the basis for allocating cost to the various programs under the direction of the Merced County Human Services Agency (HSA), and controls should be in place to ensure its accuracy. HSA has already implemented several controls over the time study reporting and review process and has taken further actions to emphasize the importance of accurate time studies with staff. HSA currently selects a sample of approximately 100 time studies on a quarterly basis.

Recommendation

We recommend that during the quarterly audit of time studies, if more than 5% of the sampled time studies contain errors, HSA should increase the number of sampled time studies to provide additional control over the time study review process.

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Management Responses

1. The Single Audit compared 40 time studies to the corresponding time cards. Those time studies had approximately 6,720 total reportable hours, assuming a 168 hour month. 7 time studies had a total of 25 hours misreported, either allocable hours reported as non-allocable or vice-versa. The net shift was 14 hours. 25 hours out of a total of 6,720 equals an error rate of .37%. 14 hours out of 6,720 hours equals .2%. This is certainly a minimal error rate.

2. The cost consequence of the above was assessed by rerunning an annualized "mock" Administrative Claim with those hours adjusted for each of the quarters to determine the dollar shift between the Food Stamps, Medi-Cal and Cal-Works program. The results were a \$56 decrease in the Food Stamp claim, a \$105 increase in Medi-Cal and a \$154 increase in CalWORKS. Extrapolating the findings of the 40 time study sample to the total time study population of 568 would result in a possible annual cost shift of under \$3,000, though the actual impact would likely be lower. The annual Administrative claim against those three programs averages over \$40 million shared between the Federal, State and County.

3. To minimize time study errors, HSA conducts a quarterly audit of just over 100 time studies, comparing them to time cards. This has been done for many years. A random sample is used. In addition, all time studies are reviewed and any with obvious math errors (e.g., not adding up to the monthly available hours) are included in the sample. The findings of these reviews are published to HSA managers and discussed at appropriate staff meetings. All errors found are corrected. The historical findings of these reviews generally reflects the findings of the Single Audit (i.e., minor discrepancies in allocable and non-allocable hours). In addition, time study summaries are reviewed by a team of Fiscal Analysts and compared to prior quarters, to search for anomalies or shifts in reported hours—generally to ensure staff are reporting to the appropriate categories. In addition, staff and supervisors, receive a variety of training and reminders on proper time study reporting and monitoring processes on an ongoing basis.

In summary, because of the extremely low rate of misreported hours (approximately .3%), the minimal resultant dollar impact to quarterly claims (a few hundred dollars), and the extensive review and monitoring tools in place, we believe the time study process is appropriately managed, controlled and monitored, and therefore does not rise to the level of a reportable finding.

Status of Prior Year Agreed Upon Findings

None.

This information is intended solely for the use of the Board of Supervisors and management of the County and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG PAULDEN
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ACCOUNTANCY CORPORATION



By: Eric H. Xin

Bakersfield, California
January 19, 2009